State Trading Enterprises and Tariffs in a Small Importing Country†

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Abstract

This paper studies the effect of state trading enterprises (STEs) as a trade policy in a small importing country. In particular, we focus on the situation wherein the government whose payoff function is biased toward domestic producers controls the domestic production through setting the producers' price, whereas the STEs procure goods from domestic producers and imports through setting the consumers' price. To emphasize the strategic interaction between the government and STE, we analyze the two cases; simultaneous move game and sequential move game in which the government sets the price in advance. In this model, it is shown that both consumers' and producers' prices are lower under the sequential move game. Furthermore, the paper unvails the difference between the STE regime and tariff regime. We show that the imports and welfare under the optimal tariff can exceed those under the STE regime.

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